WESTBURNE

INTERNATIONAL INDUSTRIES LTD.

Annual Report 1981

Contents

Printed in Can

AR41

)ATED STATEMENT OF CHANGES
N FINANCIAL POSITION
as at September 30
(Thousands of Canadian Dollars)

	1981	1980
....	$ 102,011	$ 69,861
terest	16,728	16,629
....	10,434	10,648
....	3,100	1,897
dry	539	646
....	30,801	29,820
....	11,443	5,828
ents	7,166	1,999
....	—	79,645
....	49,410	117,292
vestments	36,528	20,862
....	15,720	6,909
on shares of Peyto Oils Ltd. .	—	33,721
....	704	277
....	3,662	3,342
....	2,688	903
....	59,302	66,014
the period	(9,892)	51,278
r 30	$ 92,119	$ 121,139

PRINTED IN CANADA

WESTBURNE
INTERNATIONAL INDUSTRIES LTD.

SECOND QUARTER,
SEPT. 30, 1981

westburne international industries ltd.
AND SUBSIDIARY COMPANIES

TO THE SHAREHOLDERS:

The comparison of revenues and earnings between this year and last year illustrates Westburne's capacity to grow in a period when many negative factors were influencing business operations. The Canadian economy is feeling the pressure of out-of-control government spending which is causing both inflation and high interest rates. In addition, Canadian oil and gas exploration activities in the last six months have declined to their lowest level in many years because of the National Energy Program and the absence of an oil and gas pricing agreement. In spite of this, Westburne was able to increase operating revenues to $652.4 million (1980 — $565.2 million) and net income to $15.8 million (1980 — $15.7 million). Earnings per common share for the first six months of fiscal 1982, based on the weighted average number of 10.5 million shares outstanding (1980 — 9.1 million) were $1.51 (1980 — $1.73). Cash flow from operations was up to $30.8 million from $29.8 million in the prior year.

On September 1, 1981, the Province of Alberta and the Federal Government reached agreement on a policy relating to oil and gas pricing and taxation which will be effective until December 31, 1986. The agreement projects certain benefits for the oil and gas industry as a result of the two-tiered pricing structure of "Old" oil and "New" oil, with the wellhead price of old oil rising to 75% of the world price over the period of the agreement and the wellhead price of new oil to equal the world price immediately. There is also a new pricing structure for natural gas which increases the Alberta border price (currently $1.82/mcf) by $0.25/mcf every six months over the duration of the agreement. However, the agreement is complex and while it is clear that the two levels of government have protected and enhanced their future revenue base, it is not yet clear how beneficial it will be to the industry as a whole. However, in Westburne's case, there will be some positive results. A progressive step for the industry was taken on October 28th by the Province of Alberta when it doubled its Royalty Tax Credit. This move will benefit Westburne by $1 million annually. In addition, the 200 to 300 small independent oil and gas operators who historically drill about 65 percent of the wells in Western Canada will each have additional cash flow, which can in some cases, amount to as much as $1 million annually. This will encourage exploration and development drilling by this most important sector of the petroleum industry.

Our equipment and supplies division is beginning to see favourable results from the streamlining of its United States operations; last month's figures have shown an improvement in spite of the slowdown in U.S. construction activities.

Drilling activity in Canada should pick up during the winter months as it normally does. Our contract in Algeria ends in 1982 and we are planning for the removal of our rigs from that country. Over all, we expect to show continued improvement in operating revenues, net earnings and cash flow.

On behalf of the Board of Directors

J.A. SCRYMGEOUR
Chairman of the Board

November 10, 1981

WEST

CONSOLIDATED STA

(Thousands of Canadian D

Three months ended September 30 1981	1980	
		REVENUE:
$ 344,483	$ 296,112	Sales and operating revenue ....
2,254	1,601	Other income ....
346,737	297,713	
		COSTS AND EXPENSES:
277,718	236,738	Cost of sales and services ....
5,457	5,778	Depreciation and depletion ......
35,663	30,079	Selling, general and administrat
12,399	7,063	Interest expense ....
331,237	279,658	
15,500	18,055	EARNINGS BEFORE INCOME TAXES AND MINORITY INT
		INCOME TAXES
5,331	6,655	Current ....
1,202	1,561	Deferred ....
6,533	8,216	
8,967	9,839	EARNINGS BEFORE MINORITY INTEREST ....
466	153	MINORITY INTEREST ....
$ 8,501	$ 9,686	NET EARNINGS APPLICABLE TO COMMON SHARES ....
$ .81	$ .98	EARNINGS PER COMMON SHARE (1) ....

(1) Based on weighted average number of common shares outstanding monthly.

The Company's fiscal year ends March 31. The consolidated earnings for the twel

The above figures are subject

URNE

IENT OF EARNINGS

—except per share data)

	Six months ended September 30		Twelve months ended September 30	
	1981	1980	1981	1980
......	$ 652,413	$ 565,231	$1,255,790	$1,092,205
......	6,981	3,996	11,898	11,161
	659,394	569,227	1,267,688	1,103,366
......	526,500	453,578	1,005,043	869,401
......	10,434	10,648	21,745	18,553
......	70,188	58,569	140,597	119,667
......	22,083	16,036	37,833	31,014
	629,205	538,831	1,205,218	1,038,635
T	30,189	30,396	62,470	64,731
......	10,361	11,870	22,000	25,038
......	3,100	1,897	5,399	3,425
	13,461	13,767	27,399	28,463
......	16,728	16,629	35,071	36,268
......	900	912	1,916	2,216
......	$ 15,828	$ 15,717	$ 33,155	$ 34,052
......	$ 1.51	$ 1.73	$ 3.17	$ 3.41

ns to September 30 appear for information purposes only.

end adjustment and audit.

BUSINESS SEGMENTS

Revenue and Earnings Contributions
for the six months ended September 30
(Thousands of Canadian Dollars)

	1981	1980
REVENUE CONTRIBUTION		
Petroleum industry services and supplies		
Contract drilling		
Canadian	$ 11,105	$ 38,017
United States	25,620	11,888
International	36,678	30,767
Oilfield supplies	44,721	51,763
Wholesale distribution of plumbing, heating and electrical supplies		
Canadian	455,477	372,199
United States	75,977	58,377
Oil and gas production	8,858	8,883
Intersegment items	(6,023)	(6,663)
	$ 652,413	$ 565,231
EARNINGS CONTRIBUTION (pre income tax)		
Petroleum industry services and supplies		
Contract drilling		
Canadian	$ 3,260	$ 9,700
United States	6,281	2,763
International	1,502	(55)
Oilfield supplies	2,576	3,040
Wholesale distribution of plumbing, heating and electrical supplies		
Canadian	18,633	15,277
United States	(2,355)	(277)
Oil and gas production	518	928
Intersegment items	(226)	(980)
	$ 30,189	$ 30,396

CONDENSED CONSOLIDATED BALANCE SHEET

as at September 30

(Thousands of Canadian Dollars—except per share data)

	1981	1980
ASSETS		
CURRENT:		
Cash and short term deposits	$ 11,281	$ 15,924
Accounts receivable	245,667	212,212
Inventories	178,614	141,320
Other	16,428	12,776
	451,990	382,232
FIXED ASSETS net of depreciation and depletion	227,972	198,840
OTHER ASSETS	17,992	12,755
	$ 697,954	$ 593,827
LIABILITIES		
CURRENT:		
Bank loans	$ 191,775	$ 121,539
Accounts payable	161,624	132,343
Long term debt due within one year	6,472	7,211
	359,871	261,093
LONG TERM DEBT less due within one year	75,621	100,647
OTHER LIABILITIES	26,643	25,357
	462,135	387,097
SHAREHOLDERS' EQUITY		
COMMON	235,819	206,730
	$ 697,954	$ 593,827
NUMBER OF COMMON SHARES OUTSTANDING (1)	10,458,818	10,422,520
EQUITY PER COMMON SHARE (1)	$ 22.55	$ 19.83

(1) After excluding 1,237,960 shares owned by subsidiaries.

CONSOI

WORKING CAPITAL, April

SOURCE:
- Net earnings before minorit
- Depreciation and depletion
- Deferred income taxes ......
- Prepaid contract costs and s
  - Funds from operations ..
- Increase in long term debt ..
- Sale of fixed assets and inves
- Issue of common shares ....
  - Total ....

APPLICATION:
- Purchase of fixed assets and
- Decrease in long term debt ..
- Investment in additional con
- Minority interest ....
- Dividends ....
- Precontract costs and sundry
  - Total ....

INCREASE (DECREASE) du

WORKING CAPITAL, Septer

The above figures are subject to year end adjustment and audit.

SEP. 3, 1981

HIGHLIGHTS OF FISCAL 1981

With Ten Year Comparisons

Operating Revenues Up 23%

Westburne's revenues climbed over the billion dollar level for the first time — $1.17 billion versus $951 million last year. Fiscal 1981's figure was over nine times that of 1972.

Net Earnings Up 28%

Net earnings applicable to common shares were $33.0 million, 28% over last year's $25.8 million, and almost 15 times those of 1972.

Earnings Per Share Better

Per share earnings were $3.39, a modest increase over last year's $3.32. Earnings were based on an average 9.8 million shares, a 26% increase over last year's 7.8 million. Per share results were almost ten times those of 1972.

Cash Flow Up 37%

Cash flow reached $62.8 million, a 37% increase over last year's $45.7 million and more than eleven times those of 1972.

Working Capital Up 46%

Working capital reached an all-time high of $102 million, 46% higher than last year's and almost nine times 1972's $11.6 million.

Debt-to-Equity Ratio Improved

Long term debt as a ratio to shareholders' equity, declined to .35 to 1 from last year's .88 to 1.

Shareholders' Equity Up 94%

Shareholders' equity reached a new high of $223.6 million, an increase of 94% over last year's $115.5 million and ten times 1972's $22.6 million.

Equity Per Share Up 44%

Equity per share also made a new high of $21.39, up 44% from last year's $14.86 even though there were more shares outstanding. Fiscal 1981's figure was almost six times that of 1972.

	Thousands of Canadian Dollars except per share data		
	1981	1980	1972
Operating Revenues	**$1,168,608**	$950,667	$130,636
Net Earnings Applicable to Common Shares	**33,044**	25,801	2,258
Earnings per Common Share	**3.39**	3.32	0.34
Cash Flow	**62,801**	45,718	5,456
Long Term Debt	**79,898**	101,728	13,428
Shareholders' Equity	**223,695**	115,459	22,627
Equity per Common Share	**21.39**	14.86	3.75

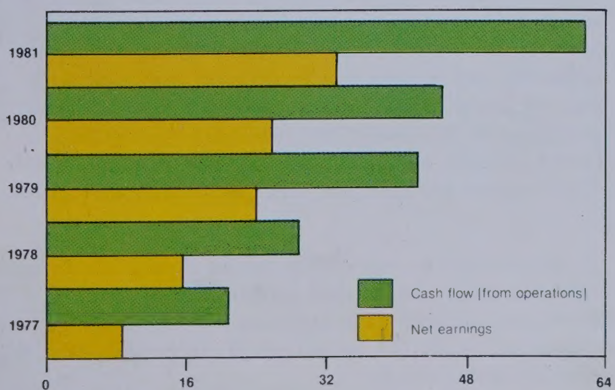
TO OUR SHAREHOLDERS

We are pleased to report that we joined the "billion dollar sales club" in the year ended March 31, 1981. The future looks favorable for a continuation of the growth we have enjoyed these past ten years in both revenues and earnings. Fortunately, we are well diversified and have plenty of opportunity for growth both in our existing operations and through potential acquisitions. We would like to share with you some of management's plans for achieving that growth.

For the most part, we expect to continue our three-pronged approach to energy. First, through increased exploration for oil and natural gas; second, through serving others engaged in that search with our drilling rigs and oilfield supplies; and third, through helping to use energy resources more efficiently through wholesale merchandising and distribution of electronic, electrical and plumbing equipment and supplies. Recently, we have embarked on a new venture through a 50% interest in a Houston based private company engaged in advancing existing analytical and measurement technology through the integration of the micro-processor, and highly refined sensors and applicational knowledge.

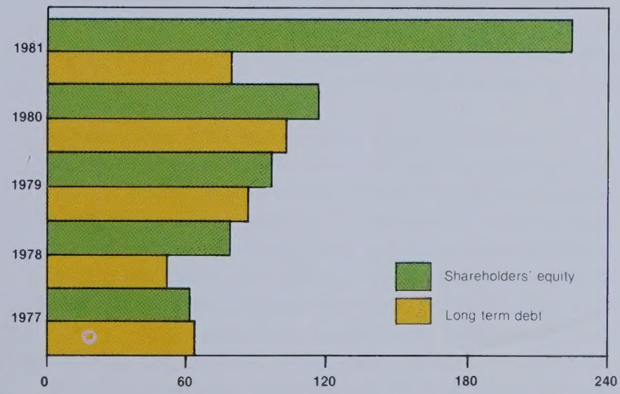
In the past ten years we have increased our earnings about fifteen times, partly by internal growth and partly by acquisitions. While a continuation of our earnings progression is very important to us, our cash flow from operations is just as vital. Since cash flow includes items charged against earnings, such as depreciation, depletion and deferred taxes, which do not result in out-of-pocket outlays, it is the measure of the amount of money Westburne generates both to pay dividends and to fuel its expansion plans. Our cash flow has grown as fast as our earnings, especially in the last five years and last year it reached a new high of $62.8 million.

NET EARNINGS/CASH FLOW
(Millions of Dollars)



In addition, our financial position is strong and should allow us to raise cash for any reasonably-sized expansion effort.

LONG TERM DEBT/SHAREHOLDERS' EQUITY
(Millions of Dollars)



We expect to commit a large percentage of the coming year's cash flow to capital expenditures. Our present plans call for outlays as follows:

Exploration and production	$20 million
Drilling rigs	$25 million
United Westburne	$25 million

Of course our program is flexible; should any unusually good opportunities present themselves we have resources to take advantage of them.

Our exploration programs in Canada will continue in spite of the negative aspects of the National Energy Program and to this end we have recently concluded an agreement to explore some of our lands in Canada with a partner who has agreed to spend at least $15 million on exploration and development over the next three years.

We will also be placing increasing emphasis on exploration in the United States, Australia and other parts of the world where we have some promising prospects and considerable acreage. At first glance Westburne's oil and gas operations may seem to be rather insignificant in the overall picture. After all, they accounted for only $18 million out of over a billion dollars of sales. However we expect to be able to finance over half of the coming year's

$20 million exploration program with the cash flow from our existing production. While our exploration division reported pre income tax earnings of $1.7 million, it actually had a cash flow of $9.9 million in fiscal 1981 which we expect to be even larger this year. Our budget calls for plowing this cash back into exploration. We hope to continue to build the value of our reserves, which at the end of fiscal 1981 had a future net revenue value of $470 million. On a 15% discounted basis these reserves were valued at $118 million.

In our drilling rig division, fiscal 1981 was a year of both good news and bad news. The good news was that exploration in the United States reached record proportions. The number of drilling rigs in operation is at an all-time high and day rates and footage rates are excellent. The bad news was that in Canada the higher taxes and crude oil price restraints imposed by the federal government have discouraged exploratory and development drilling. As a result, demand for drilling rigs has slackened and day and footage rates have softened. Fortunately, drilling rigs are highly mobile and we have moved or are in the process of moving some of our Canadian rigs to the United States and to other parts of the world. By the middle of this year we will have eighteen rigs in the United States and eighteen in other parts of the world, out of our total rig count of sixty-one. For the most part, the rigs outside of Canada include our larger, more profitable ones. Unless the situation in Canada improves, we expect to continue to place our rigs in more favorable locations, which should keep their contribution to our earnings on a growth path.

A lot is being said about the oversupply of oil and the anticipation of lower prices but we do not expect that to cause any appreciable slowdown in worldwide exploration programs. Our rigs, especially those outside of Canada, should continue to enjoy excellent business for the foreseeable future. As an indication of our confidence in the future of drilling, we plan to spend $25 million for the development and construction of new, deep-drilling rigs in 1981.

Our oilfield equipment and supplies division does most of its business in Canada but it hasn't suffered materially from the slowdown in drilling activity. In addition to our sales to the drilling industry we supply the products required by the operators and well service contractors to keep producing wells on stream and sales to refiners, petro chemical, industrial and pipeline industry segments allow for continued growth in this division.

There is a widely held assumption that the distribution operations of our United Westburne subsidiary are tied to housing starts and new construction. The facts demonstrate that this is an overly narrow point of view. Commercial and industrial sales were at record highs and as new housing slowed last year our activity picked up in renovation and repair. The result was that fiscal 1981's earnings were able to match the record level of 1980 and our volume was actually substantially higher, even in the face of a very poor housing market. What's more, we have been able to continue to expand our share of the market as well as our number of outlets. Our product line is very large and so is our geographical spread. We feel this promises well for our potential growth once the inevitable up-turn in construction takes place. In addition, there is an exciting new potential in store for our distribution division although admittedly it is still in its infancy. It is the growing push towards energy conservation, not by doing without it, but using it more efficiently. The importance of this promising field to our distribution division is that it will use a great many of the items we sell. So, the longer-term future of our distribution division is likely to be more and more related to the growth of efficiency in energy usage.

In the meantime, we continue to improve our market share in Canada and to acquire more outlets in the United States. Since our initial purchase of 26 outlets from Crane Co. in 1979, we have added 16 new units, mostly by acquisition, bringing our total to 42 United States outlets. We expect to continue our growth program through further acquisitions should they become available as well as through internal expansion

Mr. Maurice Saillant and Mr. Abraham Palmer, longtime members of the Board of Directors, will not be standing for re-election at the forthcoming Annual Meeting. Both Mr. Saillant and Mr. Palmer provided the leadership and perseverance to establish and guide their own successful companies and when their companies were purchased by Westburne they continued to contribute their knowledge and experience as members of the Board. Their counsel and guidance have been greatly appreciated.

Westburne's growth during the last decade is a direct reflection of the outstanding performance of our employees. Without their dedicated and enthusiastic support we would not have achieved our present levels of revenues and earnings.

The year ahead will probably have more than the usual amount of problems. The political situation in Canada is troubled, the United States is going through an economic transition and many countries in Europe are experiencing political change or recession. While some of the turmoil may affect Westburne, we feel that our diversified position in energy should be able to protect us from the worst of the problems and to provide us with plenty of opportunities to continue to increase our earnings as well as our sales volume. In spite of the challenges ahead, this year should be one of solid growth. Above all there is always the exciting possibility of an important oil and gas discovery in our exploration programs.

J. A. SCRYMGEOUR
Chairman of the Board

July 15, 1981

OIL AND GAS EXPLORATION AND PRODUCTION

During the year we completed the acquisition of 100% of Peyto Oils Ltd. and its operations have now been fully integrated into our oil and gas division. Earnings before income tax were $1.7 million after a provision for depletion and depreciation of $8.2 million which included a $4.8 million charge made necessary by accounting rules applied to our acquisition of Peyto Oils Ltd. The cash flow from oil and gas amounted to $9.9 million, approximately 16% of Westburne's total cash flow.

At March 31, 1981 our proven and probable reserves, as estimated by independent reservoir analysts were:

	Crude Oil and Natural Gas Liquids
	(Thousands of Barrels)
Canada	9,045
United States	373
Total	9,418

	Natural Gas
	(Millions of Cubic Feet)
Canada	51,574
United States	4,443
Total	56,017

These reserves were calculated to produce a future net revenue of $469.5 million (1980, $316.7 million), having a present worth net value discounted at 15% of $118 million (1980, $91.5 million).

During the year we participated in the drilling of sixty-nine working interest wells of which twenty-three resulted in oil wells, twenty-three in gas wells and two were drilling or completing at year end. Average daily gross production in fiscal 1981 was 2,413 barrels of oil and 8.8 mmcf of natural gas.

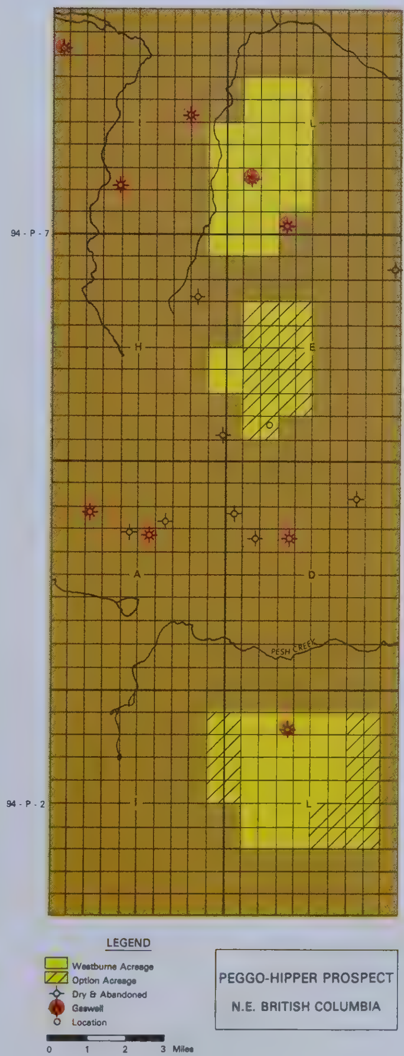
Westburne had an interest at March 31, 1981 in the following acreage:

	Developed Acreage	
	Gross Acres	Net Acres
Canada	177,680	44,142
United States	13,926	1,812
Total	191,606	45,954

	Undeveloped Acreage	
	Gross Acres	Net Acres
Canada	745,130	182,228
United States	317,360	96,431
Others	13,198,413	2,137,152
Total	14,260,903	2,415,811

We expect to spend $20 million on exploration in fiscal 1982 and to establish a United States division office in Denver, Colorado to provide a firmer base for our expansion in the Rockies and Mid-continent regions. Drilling programs will be carried on in Texas, Utah, Pennsylvania, Ohio and Oklahoma in the United States as well as in Western Canada. Westburne has a new Canadian partner for exploration on its lands in Canada. Tele-Metropole, a Canadian French language television broadcasting company, has agreed to spend $15 million over the next three years on exploration and development work. A most interesting prospect is in Australia where we have a participation of 6.75% in approximately six million acres on the northwest shelf. B.P. Development Australia Pty Ltd., the operator, has drilled a well on a large seismic structure down to almost 16,000 feet, with a sufficient hydrocarbon showing to warrant drilling a further well in September, 1981. In addition, we will be participating in a group in which Chevron Standard Limited, is the operator, to develop heavy oil in a region of the North Sea.

Maps of some of the areas to be explored in fiscal 1982 appear below and on the following pages:

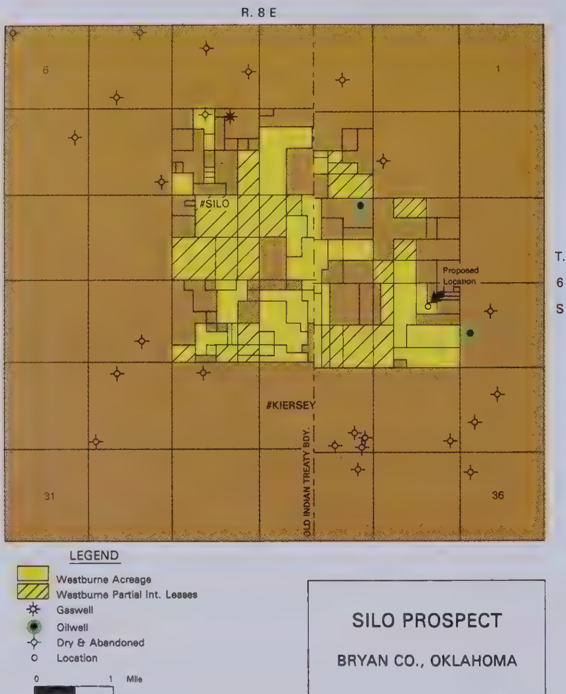


Peggo-Hipper — British Columbia

Interest varies from 8.33% to 33.33%. Two successful gas wells have been drilled and three wells are scheduled to be drilled.

Silo-Bryan County — Oklahoma

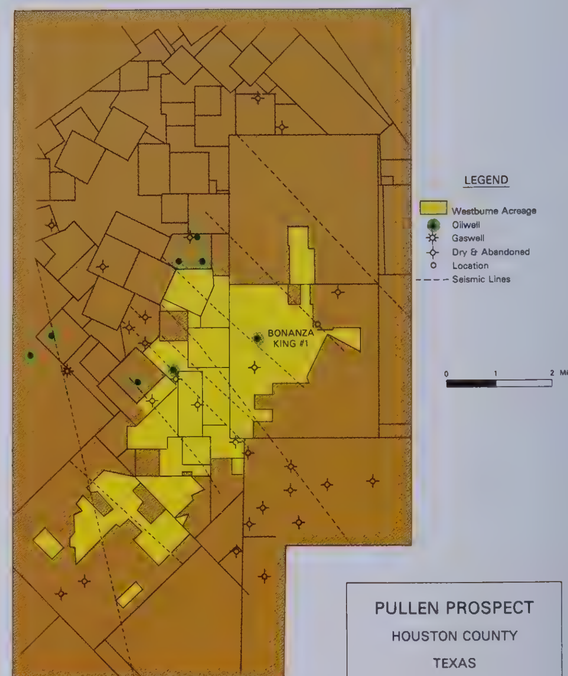
The drilling of a 10,000 foot well earns a 37½% interest in the spacing unit and 18.75% interest in the balance of lands.



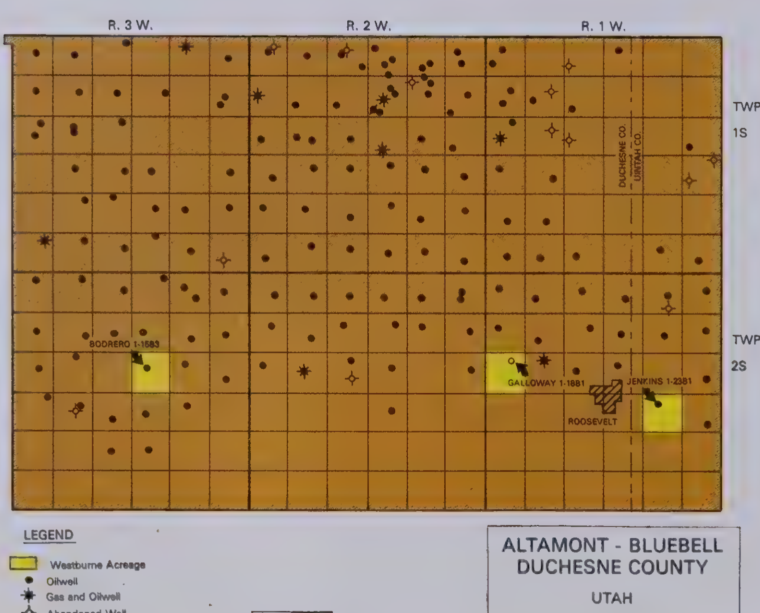
SILO PROSPECT
BRYAN CO., OKLAHOMA

Pullen-Houston County — Texas

A seismic program has been completed and a well is to be drilled on pooled lands in the northeast corner of the block in which the interest is 15%.



PULLEN PROSPECT
HOUSTON COUNTY
TEXAS



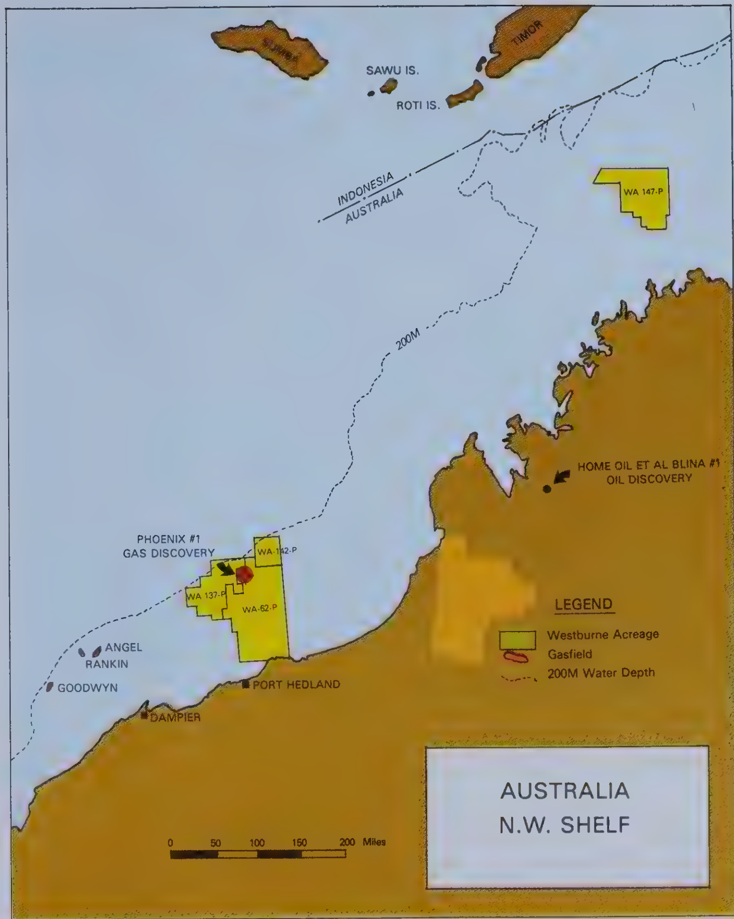
ALTAMONT - BLUEBELL
DUCHESNE COUNTY
UTAH

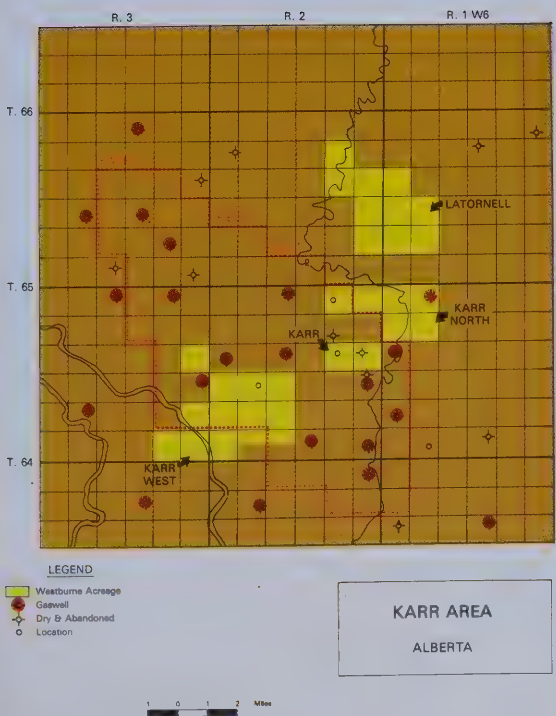
Altamont-Bluebell - Duchesne County — Utah

Interest varies from 5% to 50% in three deep wells. One well is on production, one is being completed and the other is drilling.

Australia

Interests vary from 6.75% to 10.8% in 9,341,671 acres of the northwest shelf of offshore Australia. Gas has been discovered on Block WA-62-P and a follow-up well is planned.





Karr Area — Alberta

Interests vary from 10% to 70%. A well is scheduled to be drilled on lands in which our interest is 70%.

PETROLEUM INDUSTRY SERVICES AND SUPPLIES

Contract drilling

Fiscal 1981 was a year of cross-currents for our drilling rig division. On one hand there was a sharply increased drive to find more oil and gas in most parts of the world. In the United States in particular, the result was that drilling rigs were in short supply and something of the same trend occurred in many other countries. Day and footage rates were the highest in history and for most of the year our rigs were in full operation.

On the other hand, the political situation in a couple of areas of importance to us had a negative effect for us. First, there was the war between Iraq and Iran. Two of our rigs which we had rescued from Iran were in the war zone in Iraq. We were able to move them out and both are now contracted for work, one in Abu Dhabi and the other in Guyana, South America, but not before the idle time and extra expenses had cost us, in our financial results for this year, some $2.5 million after taxes.

In Canada, the Federal Government's tax proposals, the National Energy Program and the low price it set on domestically marketed oil and gas (less than half the prevailing world prices) caused a shock wave in the Canadian energy industry. Many companies which had been active in exploration decided to pause and reconsider their programs at least until they could get a clearer view of the Canadian direction. The result was that for the first nine months of our fiscal year we enjoyed record-breaking results with all of our available rigs employed at profitable rates. However, the final three months were disappointing ones in Canada.

We have been moving some of our rigs from Canada to the United States and other parts of the world where the demand is at a very high level. By the middle of this year we will have shifted six rigs to the United States and four to other countries. At that time our rigs will be deployed as follows:

Canada	25
United States	18
Australia	2
Dominican Republic	1
Indonesia	5
Algeria	4
Abu Dhabi	4
Sharjah	1
Guyana	1
	61

In addition, we have labour contracts for two platform rigs in the United Kingdom sector of the North Sea, five land rigs in the Philippines and two service rigs in Indonesia.

The rigs in Australia will be operated by Westbridge Drilling Pty. Ltd. in which we will have a 50% interest. Originally, the rigs will be under contract to our associate, Bridge Oil Limited but will also be contracted to other companies. Recent discoveries in Australia have highlighted that country's petroleum prospects and we expect sharply increased activity.

We have contracted to build additional drilling rigs, capable of deep drilling, which we intend to use in the United States. Our capital expenditures in fiscal 1982 will be approximately $25 million.

In spite of all the complicated events of fiscal 1981, our financial results were good. Total volume was $164.9 million and pre-tax earnings amounted to $19.8 million and we look forward to a satisfactory fiscal 1982.

Oilfield equipment and supplies

All market areas of this business segment's activities showed growth in sales with a sharp increase in tubular products and increasing demand for equipment required for oil and gas production. Since our supplies and products are needed for existing wells in addition to those that will be newly drilled, demand in our fourth fiscal quarter did not experience the fall-off that took place in new exploration in Canada. Record highs were achieved in gross revenues, which reached $103 million compared to $72.5 million the year before; pre-tax profits amounted to $5.5 million compared with the preceeding year's $5.9 million.

We operate from seven Canadian outlets and one in the United States. We will be expanding in the U.S. with the opening of a new branch in Williston, North Dakota and we plan further growth in that country.

CONSTRUCTION EQUIPMENT AND SUPPLIES DIVISION

The diversification of our product lines and customers allowed us to increase our sales in fiscal 1981 even though the housing sector of the construction business was very poor. Our gross revenue reached $895 million, a 19% increase over the $753 million recorded in the previous year. This increase in volume enabled us to exceed the record high earnings of last year by a small amount, though the percentage gain was below that of our increase in sales. Net earnings after minority interests were 18.5 million versus 18.3 million last year.

Some of the specific reasons for the relatively good performance of our sales in fiscal 1981 were:

- As new construction slowed down the market for items used in reconstruction and repair picked up. That helped to keep our volume on the plus side.
- A larger share of our sales went into commercial building which did not suffer from the severe downturn experienced in the housing industry.
- We increased our penetration of the large industrial sales market serving the vast cross-section of Canadian industry.

In the United States, our profit margins failed to reach our targets due to the general slowdown in the construction industry and to the fact that we were in the process of streamlining our operations to make them similar to those which have worked successfully in Canada. Those operations resulted in a loss of $2.5 million before tax, however, we are optimistic about our U.S. operations for the year to come. Our new operational structure is now well in place and there is a good possibility of improvement later this year in the industries we serve as the favorable effects of the new administration's policies take hold.

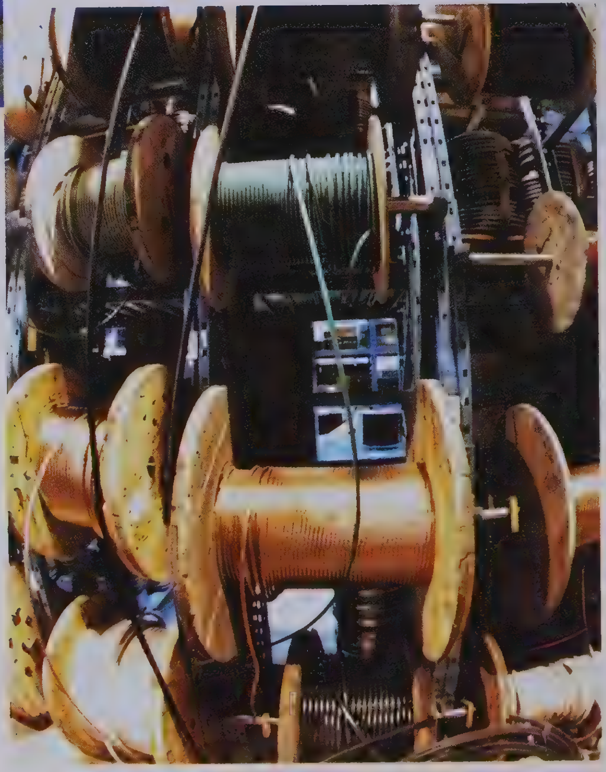
We are enthusiastic about our future potential in the United States and we have been expanding. It was in August of 1979 that we made our first entry into the United States by buying 26 wholesale plumbing outlets from Crane Co. Since then we have acquired 16 more outlets, bringing our present total to 42.

We intend to expand further into the $12 billion-a-year United States market for plumbing and air conditioning. In addition, we are looking for opportunities in the $20 billion-a-year electrical wholesale distribution market. Your management feels that the slowdown in the housing and construction fields affords an excellent opportunity for expansion. Then, when the inevitable turnaround comes we will be in a position to take full advantage of it.

We now operate 229 branches in Canada and the United States and employ some 5,000 people.

Of course, the coming year will have its problems. Record high interest rates will continue to keep construction and housing under a cloud. The long-awaited improvement in capital spending may also have to wait until the markets improve. And, our own interest expenses will be quite costly since we have to carry large inventories and finance very sizeable accounts receivable. We are in hopes that the fight against inflation will begin to succeed both in the United States and Canada and that interest rates will then be able to start on a downward path before the end of this year.

If we succeed in accomplishing our objectives we should be in an excellent position to take advantage of both the future up-turn in construction and housing and an accelerating demand which should result from the drive towards energy conservation.



Financial Review

Thousands of Canadian Dollars except per share data

Five Year Selected Data (1)

Year ended March 31	1981	1980	1979	1978	1977
OPERATING					
Operating revenues	$1,168,608	$950,667	$615,947	$482,666	$422,495
Net earnings applicable to common shares	33,044	25,801	23,935	15,943	8,870
Per common share outstanding (2) (5)					
Basic earnings	3.39	3.32	3.14	2.18	1.27
Fully diluted earnings	3.39	3.32	3.08	2.05	1.14
Cash flow from operations	$ 62,801	$ 45,718	$ 41,965	$ 29,059	$ 21,067
DIVIDENDS					
Per common share (3)	$0.70	$0.70	$1.00	—	—
FINANCIAL					
Receivables	$ 215,864	$192,173	$132,178	$ 84,954	$ 74,437
Inventories	174,537	159,049	111,523	67,302	62,496
Working capital	102,011	69,861	82,461	35,151	31,296
Fixed assets, net of depreciation and depletion	214,027	163,875	104,068	98,070	99,117
Total assets	655,793	558,145	393,336	290,972	273,284
Long term debt	79,898	101,728	86,498	50,793	62,271
Redeemable preferred shares	—	—	—	1,215	1,725
Common shareholders' equity	$ 223,695	$115,459	$ 95,094	$ 77,945	$ 60,986
Equity per common share (4) (5)	$21.39	$14.86	$12.23	$10.53	$8.42
Number of common shares outstanding (5)	10,458,818	7,772,440	7,772,440	7,402,808	7,242,608

(1) Results for certain prior years have been restated to reflect adjustments to previously reported operating results.

(2) Based on weighted number of common shares outstanding during the year.

(3) Includes $0.625 special dividend in 1979.

(4) Based on common shares outstanding at year end.

(5) After giving retroactive effect to the 2 for 1 split of common shares effective August 31, 1979.

Management's Discussion and Analysis

In 1981 net earnings increased to $33.0 million, an increase of 28.1% over 1980 while 1980 net earnings had increased 7.6% over 1979. The net earnings for 1980 reflect an unusual loss of $5.3 million which is more fully explained in Note 15 of the Notes to Consolidated Financial Statements. With cash flow from operations of $62.8 million and proceeds of $85.0 million from the issue of equity shares, the Company was able to complete the acquisition of Peyto Oils Ltd., spend $49.8 million on capital expenditures and finish the fiscal year with an increase in working capital of $32.2 million.

Results of Operations

Revenues for 1981 reached $1.17 billion an increase of 23% over 1980 compared to an increase in 1980 of 54% over 1979. The increase in both years was primarily in the construction equipment and supplies division, 19% in 1981 and 76% in 1980. In 1981 the increase was the result of (a) including a full year of operations of the 26 branches in the United States which were acquired in August 1979 and the addition from time to time during the fiscal year of revenue from a further 16 branches in the United States together with (b) general price increases during the year. In 1980 the large increase in revenues of the division was the result of (a) expansion in the electrical supplies business in Canada through the acquisition in January 1979 of certain inventories and fixed assets of Nedco Ltd. and Zentronics Ltd. and (b) an approximate 30% increase due to increased volumes through internal expansion and increased prices. Revenues also increased in 1981 in the petroleum industry services and supplies division as a result of increased drilling revenues due to high levels of rates and activity in domestic and international operations. Business segment information appearing elsewhere in this report shows a decrease ($19.5 million) between 1979 and 1980 revenues from contract drilling in international operations and an increase ($29.3 million) between 1980 and 1981 revenues. This was primarily due to the enforced idleness in fiscal 1980 of four drilling rigs which had been under contract in Iran.

Cost of sales increased 23% in 1981 compared to 56% in 1980. The increase in 1981 and 1980 was primarily in the construction equipment and supplies division and was proportionate to the increase in revenues thereby maintaining gross margins for the years in this division. In the petroleum industry services and supplies division in 1981 higher maintenance and direct costs offset the increase in revenues in domestic drilling. Increases in selling, general and administrative costs were also proportionate to the increase in gross revenues.

The Company provides for depreciation on an activity basis and for depletion on a unit of production method based on full cost and estimated proven recoverable reserves. Depreciation and depletion in 1981 increased by 70% over 1980 and by 5% in 1980 over 1979. The increase in depreciation and depletion in 1981 was the result of idle drilling equipment in international operations being again under contract, higher activity in domestic drilling operations and a higher depreciable value of domestic drilling assets due to capital expenditures in 1980 and 1981 to upgrade equipment. In addition, the acquisition of Peyto Oils Ltd. resulted in increased depreciation and depletion in the oil and gas division with $4.8 million of the increase being amortization of the amount of $55.2 million allocated to oil and gas properties out of the total purchase price of $70.4 million for Peyto Oils Ltd.

Interest expense for 1981 has increased 28% for the year as a result of higher rates of interest and increased short term borrowings to finance expansion in the construction equipment and supplies division and short term borrowings for part of the year to finance the cash portion of the acquisition of Peyto Oils Ltd.

Net income increased 28% in 1981 over 1980 compared to 7% in 1980 over 1979. Although earnings have increased substantially in 1981 there were two events which adversely affected earnings. The first was the outbreak of war between Iraq and Iran approximately seven months after commencement of contract drilling operations in Iraq employing two rigs. This resulted in the cancellation of our contract in December and subsequent removal of the assets from Iraq. The Company suffered a loss of approximately $2.5 million after income tax on these operations. In addition a prolonged strike in Quebec at one of the branches of the construction equipment and supplies division resulted in a reduction of earnings of approximately $1.2 million after income tax.

Our Canadian contract drilling division had a high level of demand for its services until the introduction of the National Energy Program in October 1980. The program resulted in uncertainties and reduced Canadian oil and gas exploration. As a result the Company moved a portion of its drilling equipment to the United States and other areas to service a rapidly expanding market. Westburne had built its fleet of rigs in Canada up to 36 in number but has since moved six rigs into the

United States, one rig to the Dominican Republic and one rig to Indonesia, and subsequent to March 31, 1981 sold one rig. In addition Westburne subsequent to March 31, 1981, entered into a 50% joint venture to move and operate two rigs in Australia; work will commence about the middle of the 1981-1982 fiscal year. With this deployment of equipment by the Company and by other Canadian drilling contractors the rig supply in Canada should be adequate to meet demand.

Liquidity and Sources of Capital

The Company is active in three different lines of business: wholesale distribution of construction equipment and supplies, petroleum industry services and supplies and oil and gas exploration and production. The first-mentioned business is a typical wholesale distribution operation with its principal investment in current assets, mainly its stock of products for resale, and accounts receivable from customers. The latter two mentioned businesses whose principal investment is in fixed assets, i.e., drilling rigs, interests in oil and gas properties and intangible drilling costs, are in what might be called capital intensive businesses.

The Company presently considers itself adequately financed and well able to raise funds either through equity or debt, should the need arise. Working capital at March 31, 1981 was $102.0 million for a current ratio of 1.3 to 1. This compares with working capital of $69.9 million and $82.5 million and current ratios of 1.2 to 1 and 1.4 to 1 in 1980 and 1979 respectively. The long term debt to equity ratio improved considerably in the current year principally as a result of the issuance of common shares with a value of $85.0 million. Long term debt was $79.9 million at March 31, 1981 while shareholders' equity was $223.7 million for a debt to equity ratio of .35 to 1. This compares with debt to equity ratios of .88 to 1 and .91 to 1 in 1980 and 1979.

Consideration is being given to converting a portion of the currently outstanding short term debt into long term debt. If this is done the current ratio would improve without causing an unduly high debt to equity ratio.

Between 1979 and 1981 the Company had capital expenditures of $107.3 million as well as acquiring 100% interest in Peyto Oils Ltd. for $70.4 million. During this same period cash flow from operations aggregated $150.5 million. Cash flow from operations in 1981 was $62.8 million, an increase of 37% over 1980 and an increase of 50% over 1979.

At March 31, 1981 fixed assets, net of depreciation and depletion, were $214.0 million which is 2.7 times the long term debt of $79.9 million.

The Company has budgeted for capital expenditures of $70.0 million in fiscal 1982. It is anticipated that the majority of the funds for these expenditures will come from cash flow generated during the year so that working capital and debt to equity ratios should be maintained.

The Company has unused adequate lines of credit with bankers and there is no indication that such lines will be reduced or cancelled.

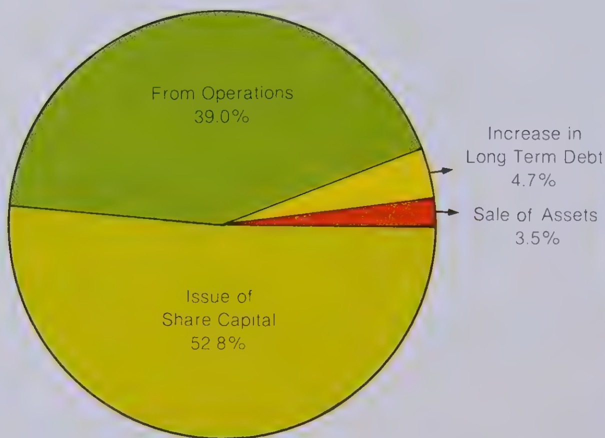
Inflation is a significant factor in the economy and the Company is continually seeking ways to cope with its impact. In general, to the extent permitted by competition, the Company passes increased costs on by gradually increasing sales prices. However the Company has not prepared a detailed analysis of the effect of inflation on operations; therefore, it is not possible to quantify the impact of inflation. Virtually all of the revenues and costs of the Company are affected by inflation; of course general market conditions also have significant impact.

The Canadian Federal Government in its National Energy Program, proposes to pay exploration grants, particularly for exploration in frontier areas, to Canadian controlled companies with high levels of Canadian ownership. Rules for determining Canadian ownership have not been finalized but it is probable that the Company will not qualify for the higher level of grants. Since the Company does not hold oil and gas interests in frontier areas and as the oil and gas exploration and production division is not presently a material contributor to net earnings, the provisions in the National Energy Program related to exploration grants will not have a significant effect on earnings.

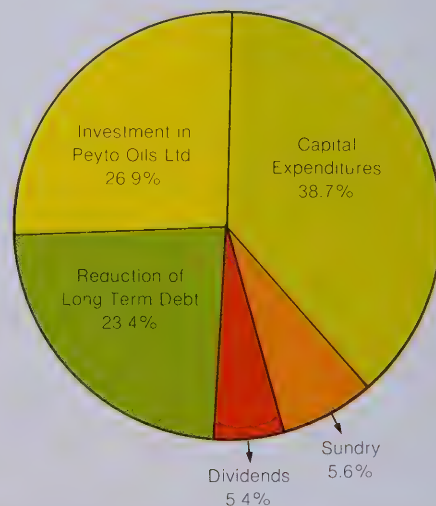
Financial Charts

Changes in Financial Position
(as a percentage)

Source of Funds



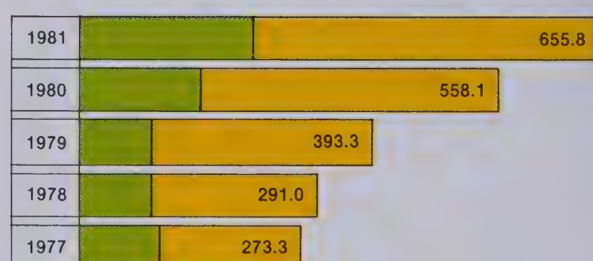
Application of Funds



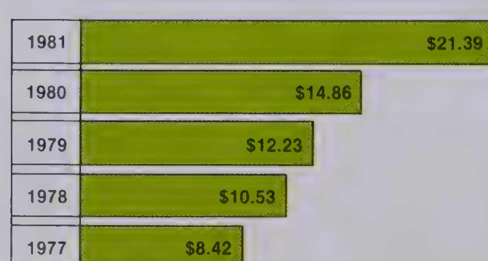
Total Assets
(Millions of Dollars)

Fixed Assets—property and equipment (net)

Receivables, inventories and others



Common Shareholders' Equity (per share)
(Dollars)



Consolidated Statement of Earnings

Thousands of Canadian Dollars except per share data

Year ended March 31	1981	1980	1979
Operating revenues			
Construction equipment and supplies	$ 895,408	$ 752,784	$ 426,118
Petroleum industry services and supplies	254,897	189,295	183,140
Oil and gas exploration and production	18,303	8,588	6,689
	1,168,608	950,667	615,947
Costs and expenses			
Cost of sales			
Construction equipment and supplies	723,588	609,660	345,802
Petroleum industry services and supplies	203,154	143,951	137,031
Oil and gas exploration and production	5,379	3,176	2,214
Depreciation and depletion	21,959	12,895	12,265
Selling, general and administrative	128,978	106,215	67,570
	1,083,058	875,897	564,882
Special provision for loss arising on termination of drilling contract in Iran less insurance recoveries of $9,216,000 (Note 15)	—	5,263	—
	1,083,058	881,160	564,882
Earnings from operations	85,550	69,507	51,065
Other expenses and revenues (Note 11)	22,873	14,016	6,119
Earnings before income taxes and minority interest	62,677	55,491	44,946
Income taxes (Note 12)			
Current	23,509	24,695	18,441
Deferred	4,196	2,887	1,615
	27,705	27,582	20,056
Earnings before minority interest	34,972	27,909	24,890
Minority interest	1,928	2,108	922
Net earnings for the year	$ 33,044	$ 25,801	$ 23,968
Earnings per common share	$3.39	$3.32	$3.08
Weighted average number of common shares outstanding	9,759,646	7,772,440	7,772,440

Consolidated Balance Sheet
Thousands of Canadian Dollars

March 31	1981	1980
Assets		
Current assets		
Cash and short term deposits	$ 26,309	$ 20,165
Accounts receivable	215,864	192,173
Inventories (Note 1d)	174,537	159,049
Prepaid expenses and consumable supplies	13,342	10,662
Total current assets	430,052	382,049
Investments and advances, at cost		
Shares and advances	4,871	4,469
Notes and mortgages receivable	1,063	885
Notes receivable - directors and employees (Note 2)	292	471
	6,226	5,825
Fixed assets, at cost (Note 3)	298,904	231,380
Less accumulated depreciation and depletion	84,877	67,505
	214,027	163,875
Other		
Deferred contract costs, less amount amortized	1,048	1,158
Financial expenses, less amount amortized	591	1,374
Excess of cost of investments in shares of subsidiaries over net assets at date of acquisition (Note 4)	3,849	3,864
	5,488	6,396
Total assets	$655,793	$558,145

Signed on behalf of the Board:

J. A. Scrymgeour, Director

W. J. Cummer, Director

March 31	1981	1980
Liabilities		
Current liabilities		
Bank loans, secured (Notes 5 and 6)	$148,141	$146,223
Accounts payable	168,263	142,371
Income taxes payable	2,586	12,653
Dividends payable	2,047	1,670
Long term debt due within one year	6,241	8,747
Deferred income taxes	763	524
Total current liabilities	328,041	312,188
Long term debt, less amount due within one year (Notes 5 & 7)	79,898	101,728
Deferred income taxes	23,324	21,802
Minority interest (Note 8)	9,231	14,564
Unrealized currency translation loss (Note 1c)	(8,396)	(7,596)
Total liabilities	432,098	442,686
Shareholders' equity		
Common shares (Note 9)	90,635	5,630
Contributed surplus	5,326	5,326
Retained earnings (Note 10)	127,734	104,503
Total shareholders' equity	223,695	115,459
Total liabilities and shareholders' equity	$655,793	$558,145

Consolidated Statement of Retained Earnings
Thousands of Canadian Dollars

Year ended March 31	1981	1980	1979
Balance at beginning of year	$104,503	$ 84,138	$ 68,406
Add (Deduct)			
Net earnings for the year	33,044	25,801	23,968
Change of minority interest in subsidiary companies	(67)	5	(431)
Dividends			
Common shares	(7,000)	(5,441)	(7,772)
Preferred shares	—	—	(33)
Financial expenses on issue of common shares (net of deferred income tax of $2,435,000).	(2,746)	—	—
Balance at end of year	$127,734	$104,503	$ 84,138

AUDITORS' REPORT

THE SHAREHOLDERS
WESTBURNE INTERNATIONAL INDUSTRIES LTD.

We have examined the consolidated balance sheet of Westburne International Industries Ltd. as at March 31, 1981 and 1980 and the consolidated statements of earnings, retained earnings and changes in financial position for each of the three years in the period ended March 31, 1981. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at March 31, 1981 and 1980 and the results of its operations and the changes in its financial position for the three years in the period ended March 31, 1981 in accordance with generally accepted accounting principles applied on a consistent basis.

Calgary, Alberta
June 8, 1981

TOUCHE ROSS & CO.
Chartered Accountants

Consolidated Statement of Changes in Financial Position

Thousands of Canadian Dollars

Year ended March 31	1981	1980	1979
Source of funds			
Net earnings before minority interest	$ 34,972	$ 27,909	$ 24,890
Depreciation and depletion	21,959	12,895	12,265
Deferred income tax	4,196	2,887	1,615
Other	1,674	2,027	3,195
Funds from operations	62,801	45,718	41,965
Long term debt	7,496	23,346	77,243
Sale of fixed assets and changes in investments	5,726	9,588	3,250
Issue of share capital (Note 9)	85,005	—	202
	161,028	78,652	122,660
Application of funds			
Capital expenditures	49,813	36,312	21,196
Reduction in long term debt (adjusted for foreign currency translation)	30,126	11,448	43,797
Acquisition of Peyto Oils Ltd. (net of working capital)	34,726	34,786	—
Deferred contract costs	889	1,804	574
Dividends			
Preferred	—	—	33
Common	7,000	5,441	7,772
Financial expense	4,463	718	—
Other	1,861	743	1,978
	128,878	91,252	75,350
Increase (decrease) in working capital	32,150	(12,600)	47,310
Working capital at beginning of year	69,861	82,461	35,151
Working capital at end of year	$102,011	$ 69,861	$ 82,461
Changes in working capital			
Increase (decrease) in			
Cash and short term deposits	$ 6,144	$ (3,795)	$ 6,829
Accounts receivable	23,691	59,995	47,224
Inventories	15,488	47,526	44,221
Prepaid expenses and consumable supplies	2,680	561	397
(Increase) decrease in			
Bank loans	(1,918)	(66,146)	(22,663)
Other payables	(16,441)	(55,742)	(31,349)
Long term debt due within one year	2,506	5,001	2,651
Increase (decrease) in working capital	$32,150	$(12,600)	$ 47,310

Consolidated Statement of Business Segments

Thousands of Canadian Dollars

REVENUE CONTRIBUTION Year ended March 31	1981	1980	1979	1978	1977
Construction equipment and supplies Canada	$ 767,400	$689,334	$426,118	$341,222	$311,436
United States	128,008	63,450	—	—	—
Petroleum industry services and supplies Contract drilling					
Canada	74,589	73,149	61,780	42,959	33,232
United States	28,003	20,788	20,421	17,029	10,844
International	62,309	32,991	52,466	46,513	39,354
Oilfield supplies	103,071	72,492	58,267	38,748	26,474
Oil and gas exploration and production	18,303	8,588	6,689	6,099	5,361
Intersegment items	(13,075)	(10,125)	(9,794)	(9,904)	(4,206)
	$1,168,608	$950,667	$615,947	$482,666	$422,495

EARNINGS CONTRIBUTION (Before Income Taxes and Minority Interest)* Year Ended March 31	1981	1980	1979	1978	1977
Construction equipment and supplies Canada	$ 37,965	$ 33,872	$ 16,662	$ 8,170	$ 8,051
United States	(2,510)	1,113	—	—	—
Petroleum industry services and supplies Contract drilling					
Canada	15,205	17,693	15,697	9,696	7,179
United States	7,042	4,417	6,059	3,802	(45)
International	(2,466)	(8,411)	741	1,602	(682)
Oilfield supplies	5,489	5,865	3,832	2,581	1,382
Oil and gas exploration and production	1,712	1,332	1,684	2,155	1,430
Intersegment items	240	(390)	271	(182)	28
	$ 62,677	$ 55,491	$ 44,946	$ 27,824	$ 17,343

* Westburne has allocated interest and corporate general and administrative expenses to industry segments because it believes that this allocation best reflects the decentralized and autonomous management of Westburne.

Consolidated Statement of Business Segments

Thousands of Canadian Dollars

ASSETS EMPLOYED Year ended March 31	1981	1980	1979	1978	1977
Construction equipment and supplies Canada	$ 298,267	$286,155	$232,959	$153,800	$144,454
United States	51,963	38,940	—	—	—
Petroleum industry services and supplies Contract drilling					
Canada	56,129	36,289	41,441	25,201	23,299
United States	26,122	13,453	10,178	8,965	6,860
International	78,283	77,301	63,241	67,060	68,036
Oilfield supplies	26,912	24,718	16,471	13,297	9,787
Oil and gas exploration and production	112,849	76,879	24,772	19,946	18,407
Intersegment items	5,268	4,410	4,274	2,703	2,441
	$655,793	$558,145	$393,336	$290,972	$273,284

CAPITAL EXPENDITURES Year Ended March 31	1981	1980	1979	1978	1977
Construction equipment and supplies Canada	$ 7,460	$ 8,098	$ 4,202	$ 3,841	$ 3,796
United States	910	775	—	—	—
Petroleum industry services and supplies Contract drilling					
Canada	15,248	11,592	6,292	5,271	7,180
United States	4,973	1,248	996	1,107	383
International	2,618	7,401	2,112	1,424	1,147
Oilfield supplies	129	141	390	101	59
Oil and gas exploration and production	18,329	7,023	6,811	2,105	1,368
Intersegment items	146	34	393	714	20
	$ 49,813	$ 36,312	$ 21,196	$ 14,563	$ 13,953

Consolidated Statement of Business Segments

Thousands of Canadian Dollars

DEPRECIATION AND DEPLETION Year ended March 31	1981	1980	1979	1978	1977
Construction equipment and supplies					
Canada	$ 3,038	$ 2,882	$ 2,293	$ 1,718	$ 1,381
United States	133	35	—	—	—
Petroleum industry services and supplies					
Contract drilling					
Canada	4,412	3,748	2,386	1,808	1,408
United States	1,193	925	849	688	443
International	4,731	2,382	4,627	4,895	4,662
Oilfield supplies	104	91	74	45	29
Oil and gas exploration and production	8,226	2,719	1,921	1,277	969
Intersegment items	122	113	115	100	77
	$21,959	$12,895	$12,265	$10,531	$ 8,969

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

The statements include the accounts of Westburne International Industries Ltd. (''Westburne'') and all subsidiary companies (collectively called for the purposes of these notes, the ''Company''). Eliminated on consolidation are 1,237,960 common shares of Westburne owned by subsidiaries and carried at a cost of $2,274,000. All material intercompany transactions have also been eliminated.

(b) The Board of Directors has determined that the Company's operations can be divided into three business segments. The three classes of operations as determined and recorded in the minutes of a meeting of the Board on June 8, 1978 are as follows:

(i) Wholesale distribution of construction equipment and supplies (plumbing, heating and electrical products).

(ii) Petroleum industry services and supplies (contract drilling and oilfield supplies).

(iii) Oil and gas exploration and production.

For details see consolidated statement of business segments.

(c) Assets and liabilities and income and expenses of the Company which are in currencies other than Canadian dollars are converted into Canadian funds on the following basis:

(i) Current assets, current liabilities and long term debt are converted at exchange rates in effect at the end of the period;

(ii) All non-current assets and other liabilities are converted at the rates prevailing when acquired or incurred; and

(iii) Income and expenses, except depreciation and depletion, are converted at the average rate for the period.

Unrealized foreign currency translation gains/losses are excluded in determining net earnings for the year in which foreign exchange rates change.

(d) Inventories are valued at the lower of cost (first in first out) or net realizable value.

(e) The Company follows the full cost method of accounting in respect to its oil and gas activities with one world wide pool of assets. All costs relating to the exploration for and development of oil and gas reserves are capitalized. Proceeds from disposal of properties are normally deducted from costs without recognition of gain or loss.

(f) It is the policy of the Company to depreciate the cost of plant and equipment to its estimated residual value over the estimated useful lives of the assets as follows:

Buildings — at rates of 5% to 10% per annum mainly on a diminishing balance basis.

Drilling rigs — at a rate per drilling day designed to prorate original cost less a residual value of 30% over 3,000 drilling days.

Drill string — straight-line basis related to drilling activity.

Oil production equipment, oil and mineral leases and development expenditures — unit of production based on full cost method and estimated recoverable reserves.

Other equipment — mainly 20% to 30% per annum diminishing balance basis.

Repairs and maintenance and minor expenditures for renewals and betterments are charged directly to earnings. Major renewals and betterments are capitalized and the replaced units retired.

Except for intangible oil and mineral leases and development expenditures in respect of which the full cost method is followed, it is the policy of the Company to reduce the property accounts and related accumulated depreciation of the amounts included therein for property sold and any resultant gain or loss is included in earnings.

(g) Mobilization and start-up costs incurred on long term drilling contracts in foreign countries are deferred and amortized over the terms of the contracts.

2. Notes Receivable — Directors and Employees

Westburne holds notes of directors and employees, including officers, which have arisen from subscriptions for shares of Westburne and one of its subsidiaries.

	1981	1980
6% notes receivable due on or before December 31, 1980	$ —	$ 80,000
6% notes receivable due on or before July 1, 1983	126,000	126,000
Non-interest bearing notes receivable due on or before May 1, 1983	166,000	265,000
	$292,000	$471,000

3. Fixed Assets

	1981		1980	
	Cost	Net Book Value	Cost	Net Book Value
Land	$ 3,339,000	$ 3,339,000	$ 3,084,000	$ 3,084,000
Buildings	23,677,000	16,460,000	20,364,000	14,107,000
Drilling rigs	82,975,000	58,050,000	72,779,000	51,396,000
Drill string	18,146,000	8,190,000	15,518,000	6,908,000
Oil production equipment	13,679,000	8,500,000	12,482,000	7,905,000
Other equipment	38,843,000	21,350,000	32,047,000	18,185,000
Oil and mineral leases and development expenditures	117,642,000	97,535,000	74,388,000	61,572,000
Drilling equipment held for resale	603,000	603,000	718,000	718,000
	$298,904,000	$214,027,000	$231,380,000	$163,875,000

4. Excess of Cost of Investments in Shares of Subsidiaries Over Net Assets at Date of Acquisition

The unamortized excess of cost of investments in shares of subsidiaries over net assets at date of acquisition arises from the accounting for acquisitions of subsidiaries on a purchase basis. Management is of the opinion that the amount of $3,283,000 attributed to intangible assets pertaining to subsidiaries acquired prior to April 1, 1974 is of continuing value and accordingly does not contemplate any amortization of this amount. However, in accordance with generally accepted accounting practice, the excess cost of investments in shares of subsidiaries acquired after that date and allocated to intangibles, is being amortized over a period of forty years.

5. Assets Pledged

The Company has pledged certain of its accounts receivable and oil and gas producing properties as security for bank loans.

The Company has also granted a floating charge on certain assets as security for outstanding Sinking Fund Debentures amounting to $1,931,000 at March 31, 1981 and has granted mortgages secured by certain real property and improvements.

6. Short Term Borrowings

The Company has formal arrangements with domestic and foreign banks in respect of short term borrowings. Details of short term borrowings are as follows:

	1981	1980
Maximum amount of borrowings at any month end during year	$168,240,000	$146,223,000
Average amount of short term borrowings during year	140,464,000	105,345,000
Average interest rate at end of year	17.99%	16.94%
Approximate average interest rate during year	14.77%	14.55%

7. Long Term Debt

	1981	1980
Sinking Fund Debentures		
Series A — 7% maturing March 15, 1987	$ 1,451,000	$ 1,900,000
Series B — 7½% maturing August 1, 1982	80,000	120,000
Series C — 8½% maturing March 31, 1989	400,000	450,000
The Company has covenanted to provide a sinking fund related to the above debentures aggregating $365,000 annually. The debentures are redeemable prior to maturity for other than sinking fund purposes at maximum premiums ranging from 1.0% to 3.0%, such premiums to decrease by .375% to .45% yearly until the various redemption prices equal the par values.		
Senior Notes		
9.90% due 1993 — $50,000,000 U.S. repayable in equal annual installments of $3,847,000 U.S. commencing August 1, 1981	59,340,000	59,570,000
Bank loans		
Maturing from 1981 to 1992 with interest rates ranging from 17% to 20¼%	10,231,000	28,413,000
Non-interest bearing note	—	5,551,000
Mortgages, secured debentures, conditional sales contracts, etc.		
Maturing from 1981 to 2005 with interest rates ranging from 6¼% to 19%	14,637,000	14,471,000
Total long term debt	86,139,000	110,475,000
Less amount due within one year	6,241,000	8,747,000
	$79,898,000	$101,728,000

The aggregate maturities and sinking fund requirements of long term debt outstanding as at March 31, 1981 for the succeeding five years are as follows:

1982	$6,241,000
1983	6,944,000
1984	6,669,000
1985	6,683,000
1986	6,172,000

The long term bank loans include a loan to a subsidiary of $10,000,000. The loan is a revolving line of credit up to $10,000,000 and is renewable annually. In the event that the credit is not renewed it is converted to a term loan repayable in twenty-eight equal quarterly installments with interest at prime plus 1%. No provision has been made in the long term debt maturities table for repayment of this loan in the next five years.

8. Minority Interest

Amounts making up minority interest are as follows:	1981	1980
Preferred shares	$1,910,000	$ 2,036,000
Common shares and contributed surplus	627,000	3,719,000
Retained earnings	6,694,000	8,809,000
	$9,231,000	$14,564,000

9. Share Capital

Westburne is permitted under the Canada Business Corporations Act to issue an unlimited number of first preferred shares, subordinated preferred shares and common shares.

Common Shares (1)	1981		1980	
	Shares	Amount	Shares	Amount
Issued beginning of year	7,772,440	$ 5,629,554	7,772,440	$ 5,629,554
Issued for cash	1,500,000	51,267,544	—	—
Issued in exchange for 1,482,973 common shares of Peyto Oils Ltd.	1,186,378	33,737,624	—	—
Issued end of year	10,458,818	$90,634,722	7,772,440	$ 5,629,554

(1) Exclusive of 1,237,960 shares owned by subsidiaries.

10. Retained Earnings

Long term debt agreements impose various restrictions upon the payment of dividends by certain subsidiaries.

11. Other Expenses (Revenues)

	1981	1980	1979
Interest long term debt	$ 10,817,000	$ 10,649,000	$ 7,867,000
Other interest	20,969,000	14,065,000	6,387,000
Interest and other investment income	(6,711,000)	(7,945,000)	(7,566,000)
Gain on sale of assets	(2,202,000)	(2,753,000)	(569,000)
	$ 22,873,000	$ 14,016,000	$ 6,119,000

12. Income Taxes

Income tax expenses for the three years ended March 31, 1981 have varied from applying Canadian Federal and Provincial Tax Rates as follows:

	1981		1980		1979	
	Amount	%	Amount	%	Amount	%
Average Canadian income tax and rates	$ 30,712,000	49.0	$ 26,636,000	48.0	$ 21,574,000	48.0
Difference in effective rate on (earnings) losses of foreign subsidiaries	(1,203,000)	(1.9)	*4,050,000	7.3	(359,000)	(.8)
Provincial tax credits on oil and gas income, capital gains reduction and other	(2,166,000)	(3.5)	(1,552,000)	(2.8)	(179,000)	(.4)
Inventory inflation allowance	(1,975,000)	(3.1)	(1,552,000)	(2.8)	(980,000)	(2.2)
Increase due to amortization of excess cost of subsidiary allocated to oil and gas properties	2,337,000	3.7	—	—	—	—
	$ 27,705,000	44.2	$ 27,582,000	49.7	$ 20,056,000	44.6

(*) Arises as a result of losses on international operations (primarily in Iran) being non deductible for income tax purposes.

Deferred income taxes are provided for on timing differences in the recognition of revenues and expenses for income tax and financial statement purposes, primarily relating to depreciation and depletion.

13. Commitments and Contingent Liabilities

(a) The Company has entered into lease agreements for premises and equipment and for various other assets. At March 31, 1981, future total minimum lease payments were:

1982	$10,216,000
1983	7,908,000
1984	6,380,000
1985	5,160,000
1986	4,307,000
Thereafter	12,501,000
	$46,472,000

Rent expense for the year ended March 31, 1981 was $8,236,000.

The effect on net income if all non-capitalized financing leases were capitalized would not be significant.

(b) Contingent liabilities exist for guarantees and various suits and claims which have arisen in the normal course of business. In the opinion of management of the Company, the outcome of these contingencies will not have a materially adverse effect upon the Company's financial position.

14. Pension and Retirement Plans

The Company and its subsidiaries have several separate pension plans covering substantially all of their employees. The total pension expense for the plans was: 1981 — $1,459,000, 1980 — $1,482,000, 1979 — $1,331,000, 1978 — $1,864,000, and 1977 — $2,040,000 and includes additional payments to accelerate the amortization of past service liabilities in the following amounts: $1979 — $280,000, 1978 — $400,000, 1977 — $600,000. Annually, the Company makes the maximum tax-deductible contribution to the plans.

A comparison as at January 1, 1981 of accumulated benefits and net assets for the Company's pension plans is presented below:

Actuarial present value of accumulated plan benefits:	
Vested	$17,066,000
Non-vested	795,000
	$17,861,000
Net assets available for benefits	$28,055,000

The assumed rate of return used in determining the actuarial present value of vested and non-vested accumulated plan benefits is 7% per annum, compounded annually. Net assets are stated at market value.

15. Foreign Operations

From 1975 to 1979, the Company conducted drilling operations in Iran under a contract with the Oil Service Company of Iran. Subsequent to the expiration of the contract on March 31, 1979, the Company sought to export from Iran the four drilling rigs and related equipment used in connection with the contract. While it succeeded in exporting the rigs, political turmoil precluded it from exporting certain of the related equipment, including camps, spare parts and heavy equipment and it incurred costs in exporting the rigs. In 1980 a non-recurring special provision of $14,479,000 was made in respect of such losses. The Company made claims under the political risk and civil commotion insurance with respect to its losses and included as a reduction of the special provision recoveries of $9,216,000 from such claims. The net loss of $5,263,000 was not deductible for income tax purposes.

16. Acquisitions

In January, 1980, Westburne acquired 51.3% of the outstanding shares of Peyto Oils Ltd. On May 1, 1980 Westburne made an offer to acquire all the remaining outstanding Peyto common shares either for cash at a price of $22.75 per share or, in exchange for common shares of Westburne at the rate of 0.8 of a Westburne common share for each common share of Peyto sent in for exchange. During the year Westburne was successful under the exchange offer in acquiring the remaining outstanding common shares of Peyto and now owns 100% of the outstanding common shares of Peyto Oils Ltd.

	Shares	Cost of Investment
Shares acquired for cash January 1980	1,469,890	$33,954,000
Shares acquired for cash under the exchange offer	117,020	2,662,000
Shares acquired in exchange for 1,186,378 Westburne shares under the exchange offer	1,482,973	33,738,000
	3,069,883	$70,354,000

The acquisition of Peyto Oils Ltd. has been accounted for on the purchase basis and the excess purchase price of $55,199,000 has been allocated to oil and gas properties to be amortized on a unit of production basis. It is possible that government approval of the Peyto acquisition may be required under the Foreign Investment Review Act and, if such should be the case, and if such approval is not forthcoming then Westburne could be required to divest itself of all the Peyto common shares.

17. Related Party Transactions

Various officers, directors and employees of the Company were limited partners in Limited Partnerships, formed in prior years by subsidiaries of the Company, as vehicles for investment in oil and gas exploration and development. Employees as a group were permitted to acquire up to 10% of the various Limited Partnerships with each limited partner contributing an amount equal to his percentage interest of the total capital of the Limited Partnership. During the year the Company, for administrative and other reasons, decided it was advisable to acquire the interest of the limited partners so as to have 100% participation. The purchase price of $1,210,000 paid for the limited partners' interests was determined principally by reference to evaluations prepared by independent oil and gas reservoir analysts.

18. Selected Quarterly Financial Information (Unaudited)

(Thousands of Canadian Dollars except per share data)

Year Ended March 31, 1981	June 30, 1980	September 30, 1980	December 31, 1980	March 31, 1981	Full Year
Operating revenues	$269,119	$296,112	$304,707	$298,670	$1,168,608
Costs and expenses	259,173	279,658	295,437	280,576	1,114,844
Net earnings	6,031	9,686	6,236	11,091	33,044
Cash flow from operations	12,257	17,563	13,574	19,407	62,801
Net earnings per common share	$ 0.75	$ 0.98	$ 0.57	$ 1.09	$ 3.39

Year Ended March 31, 1980	June 30, 1979	September 30, 1979	December 31, 1979	March 31, 1980	Full Year
Operating revenues	$194,172	$229,521	$270,012	$256,962	$950,667
Costs and expenses	195,088	210,083	236,962	239,027	881,160
Net earnings (loss)	(8,783)	7,412	18,849	8,323	25,801
Cash flow from operations	(3,838)	11,798	24,702	13,056	45,718
Net earnings (loss) per common share	$(1.13)	$ 0.95	$ 2.43	$ 1.07	$ 3.32

(1) Costs and expenses for the quarters ended June 30, 1979 and March 31, 1980 include non-recurring special provisions of $14,100,000 and $379,000, respectively, relating to the termination of drilling operations in Iran.

(2) Costs and expenses for the quarters ended December 31, 1979 and March 31, 1980 have been reduced by $8,051,000 and $1,165,000, respectively, for the recoveries from insurance claims on equipment not removed from Iran.

(3) In the construction equipment and supplies division inventory counts were taken in conjunction with the nine month financial statements to December 31, 1979 and an inventory adjustment to cost of sales was recorded in the quarter then ended. Normally, inventory counts are taken in the last quarter of the year and the inventory adjustment is recorded in that quarter. The physical inventory counts resulted in an increase in net earnings after income tax of approximately $5,400,000 at March 31, 1981 and of approximately $3,500,000 at December 31, 1979.

19. Summary of Differences Between Canadian and United States Accounting Principles

(a) The Company follows accounting principals generally accepted in Canada and differences exist between those generally accepted in Canada and those applicable in the United States with respect to the recognition and treatment of unrealized gains and losses arising on the translation of amounts stated in foreign currency and with respect to the full cost accounting method for oil and gas properties. The arms-length negotiations over the price per share to be paid to the Peyto shareholders resulted in a valuation for oil and gas properties that is substantially higher than the valuation under the S.E.C. rules. The limitation on capitalized costs of oil and gas properties under the S.E.C. rules would result in $22,547,000 at March 31, 1981 and $11,794,000 at March 31, 1980 of the Peyto purchase price being allocated to goodwill instead of oil and gas properties. The effect on the consolidated balance sheet at March 31, 1981 and March 31, 1980 of this and the differences between generally accepted accounting principles in Canada and in the United States is summarized as follows:

	As Reported Under Canadian Accounting Principles	Increase (Decrease)	Under United States Accounting Principles
March 31, 1981			
Oil and gas properties	$106,035,000	$ (25,087,000)	$ 80,948,000
Goodwill *	—	22,547,000	22,547,000
Unrealized foreign currency translation loss	8,396,000	(8,396,000)	—
Retained earnings	127,734,000	(10,936,000)	116,798,000
March 31, 1980			
Oil and gas properties	$ 69,477,000	$(14,334,000)	$ 55,143,000
Goodwill *	—	11,794,000	11,794,000
Unrealized foreign currency translation loss	7,596,000	(7,596,000)	—
Retained earnings	104,503,000	(10,136,000)	94,367,000

* (Excess of cost of investments in shares of subsidiaries over net assets at date of acquisition).

(b) In 1978, the Accounting Research Committee of the Canadian Institute of Chartered Accountants issued recommendations for accounting for foreign currency translation which were to have been applicable in Canada for fiscal periods commencing on or after December 1, 1978. Under these recommendations unrealized exchange gains and losses arising on translation of long term loans would have been amortized over the remaining terms of the loans rather than being carried as a balance sheet item until the gain or loss is realized. On February 23, 1979 the implementation of these recommendations was suspended for futher study. Under United States generally accepted accounting principles and the provisions of Financial Accounting Standards Board Statement No. 8, unrealized gains or losses on foreign currency translations would be included in earnings.

The Company in using the full cost method of accounting for its oil and gas properties has one worldwide pool of assets. In the United States use of the full cost method would require that cost centers be established on a country-by-country basis. The difference between the two methods did not have a material effect on net earnings prior to April 1, 1979. For the year ended March 31, 1980 the application of the country-by-country full cost method would result in an additional write-off of $2,540,000. This amount represents a write down of full cost pools because of a required limitation on capitalized costs. Included in net capitalized costs is $3,300,000 represented principally by dry hole costs in a country where the Company is earning rights to a concession by performing a drilling commitment. The Company has an additional drilling commitment of $1,700,000. Under United States generally accepted accounting principles, if proven reserves are not discovered these costs would have to be written off.

The effect on earnings applicable to common shares of the above differences between accounting principles generally accepted in Canada and those applicable in the United States is summarized as follows:

	1981	1980	1979
Earnings applicable to common shares Canadian accounting principles	$33,044,000	$25,801,000	$23,935,000
Foreign currency translation	(800,000)	(2,757,000)	(2,259,000)
Country-by-country full cost method	—	(2,540,000)	—
Earnings applicable to common shares United States accounting principles	$32,244,000	$20,504,000	$21,676,000
Earnings per common share United States accounting principles	$ 3.30	$ 2.64	$ 2.79

20. Oil and Gas Reserves and Historical Financial Data Related to Oil and Gas Producing Activities

(a) Capitalized costs:

	Canada	United States	Other	Total
Year ended March 31, 1981:				
Proved properties	$ 95,215,000	$ 21,446,000	$ —	$116,661,000
Unproved properties	4,192,000	2,225,000	8,482,000	14,899,000
Total	$ 99,407,000	$ 23,671,000	$ 8,482,000	$131,560,000
Accumulated amortization	$ 20,557,000	$ 2,383,000	$ 2,421,000	$ 25,361,000
Year ended March 31, 1980				
Proved properties	$ 63,869,000	$ 9,756,000	$ —	$ 73,625,000
Unproved properties	3,851,000	2,080,000	7,314,000	13,245,000
Total	$ 67,720,000	$ 11,836,000	$ 7,314,000	$ 86,870,000
Accumulated amortization	$ 14,186,000	$ 1,397,000	$ 1,810,000	$ 17,393,000

(b) Costs incurred:

	Canada	United States	Other	Total
Year ended March 31, 1981				
Capitalized costs incurred:				
Property acquisition costs:				
Unproved	$ 1,442,000	$ 1,280,000	$ —	$ 2,722,000
Proved	—	9,000	—	9,000
Exploration costs	2,964,000	4,391,000	1,177,000	8,532,000
Development costs	1,971,000	5,095,000	—	7,066,000
Costs charged to expense:				
Production (lifting) costs	4,389,000	990,000	—	5,379,000
Depreciation and depletion	6,402,000	1,214,000	610,000	8,226,000
Year ended March 31, 1980				
Capitalized costs incurred:				
Property acquisition costs:				
Unproved	$ 534,000	$ 438,000	$ 11,000	$ 983,000
Proved	—	—	—	—
Exploration costs	2,870,000	1,606,000	1,369,900	5,845,000
Development costs	23,000	—	—	23,000
Costs charged to expense:				
Production (lifting) costs	1,800,000	127,000	—	1,927,000
Depreciation and depletion	1,671,000	439,000	609,000	2,719,000
Year ended March 31, 1979				
Capitalized costs incurred:				
Property acquisition costs:				
Unproved	$ 2,055,000	$ 95,000	$ —	$ 2,150,000
Proved	4,000	—	—	4,000
Exploration costs	1,604,000	206,000	2,818,000	4,628,000
Development costs	30,000	—	—	30,000
Costs charged to expense:				
Production (lifting) costs	2,192,000	22,000	—	2,214,000
Depreciation and depletion	1,107,000	193,000	621,000	$1,921,000

(c) Net revenues

	1981	1980	1979
Canada	$14,252,000	$ 7,052,000	$ 5,467,000
United States	3,168,000	507,000	97,000
	$17,420,000	$7,559,000	$5,564,000

(d) Estimated quantities of oil and gas reserves (unaudited)

	Canada		United States		Total	
	Oil (bbls.)	Gas (mcf)	Oil (bbls.)	Gas (mcf)	Oil (bbls.)	gas (mcf)
Proved developed and undeveloped reserves:						
Balance March 31, 1978	5,399,000	7,441,000	—	—	5,399,000	7,441,000
Revision of previous estimates	(726,000)	(2,713,000)	—	—	(726,000)	(2,713,000)
Extensions, discoveries, and other additions	105,000	1,206,000	—	—	105,000	1,206,000
Production	(439,000)	(217,000)	—	—	(439,000)	(217,000)
Balance March 31, 1979	4,339,000	5,717,000	—	—	4,339,000	5,717,000
Revision of previous estimates	(122,000)	338,000	—	—	(122,000)	338,000
Purchases of reserves	1,905,000	32,556,000	104,000	2,673,000	2,009,000	35,229,000
Extensions, discoveries, and other additions	—	1,601,000	—	—	—	1,601,000
Production	(433,000)	(616,000)	(4,000)	(7,000)	(437,000)	(623,000)
Balance March 31, 1980	5,689,000	39,596,000	100,000	2,666,000	5,789,000	42,262,000
Revision of previous estimates	137,000	2,242,000	187,000	(189,000)	324,000	2,053,000
Purchase of reserves	—	—	—	—	—	—
Extensions, discoveries and other additions	106,000	1,114,000	31,000	420,000	137,000	1,534,000
Production	(599,000)	(1,955,000)	(56,000)	(343,000)	(655,000)	(2,298,000)
Balance March 31, 1981	5,333,000	40,997,000	262,000	2,554,000	5,595,000	43,551,000
Proved developed reserves:						
Balance March 31, 1978	5,399,000	7,441,000	—	—	5,399,000	7,441,000
Balance March 31, 1979	4,339,000	3,921,000	—	—	4,339,000	3,921,000
Balance March 31, 1980	5,689,000	35,405,000	100,000	2,666,000	5,789,000	38,071,000
Balance March 31, 1981	5,333,000	36,824,000	262,000	2,554,000	5,595,000	39,378,000

(e) Estimated future net revenues as at March 31, 1981 (unaudited):

	Proved Developed and Undeveloped			Proved Developed		
	Canada	United States	Total	Canada	United States	Total
1982	$ 9,290,000	$ 2,726,000	$ 12,016,000	$ 9,290,000	$ 2,726,000	$ 12,016,000
1983	8,534,000	2,171,000	10,705,000	8,534,000	2,171,000	10,705,000
1984	7,554,000	1,802,000	9,356,000	7,554,000	1,802,000	9,356,000
Thereafter	105,694,000	7,979,000	113,673,000	97,653,000	7,979,000	105,632,000
	$131,072,000	$ 14,678,000	$145,750,000	$123,031,000	$ 14,678,000	$137,709,000

The estimated future net revenues were computed by applying current prices, adjusted only for fixed and determinable contractual escalation, to the estimated future production of proved oil and gas reserves as of March 31, 1981, less estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves, and assuming continuation of existing economic conditions.

(f) Present value of estimated future net revenue (unaudited)

The present value of the Company's estimated future net revenues from proved reserves of oil and gas discounted at ten percent is as follows:

	Proved Developed and Undeveloped			Proved Developed		
	Canada	United States	Total	Canada	United States	Total
March 31, 1979	$13,133,000	$ —	$13,133,000	$12,077,000	$ —	$12,077,000
1980	51,952,000	7,234,000	59,186,000	49,488,000	7,234,000	56,722,000
1981	62,680,000	11,348,000	75,028,000	61,319,000	11,348,000	72,667,000

(g) Reserve recognition accounting (unaudited)

Statement of reserve recognition accounting ("RRA") policies

Beginning in 1979, the Securities and Exchange Commission (SEC) required that companies present unaudited financial information on the basis of RRA. The accounting policies set forth below have been followed in preparing the RRA presentations.

Recognition of assets and earnings under RRA

Under RRA, an asset is recognized and earnings are recorded when proved reserves are added through exploration and development activities.

A dollar valuation (the "RRA valuation") of proved reserves is developed as follows:

(1) Estimates are made of quantities of proved reserves and the future periods during which they are expected to be produced based on year-end economic conditions;

(2) The estimated future production of proved reserves is priced on the basis of year-end prices except that future prices of gas are increased for fixed and determinable escalation provisions in contracts;

(3) The resulting future gross revenue streams are reduced by estimated future costs to develop and to produce the proved reserves, based on year-end cost estimates; and

(4) The resulting future net revenue streams are reduced to present value amounts by applying a 10 percent discount factor.

As acknowledged by the SEC, this valuation procedure does not necessarily yield the best estimate of the fair market value of a company's oil and gas properties. An estimate of fair market value should also take into account, among other factors, the likelihood of future recoveries of oil and gas in excess of proved reserves and anticipated future prices of oil and gas and related development and production costs.

Subsequent revisions to the RRA valuation of proved reserves are included in RRA earnings as they occur. The estimated impact of major factors affecting annual changes in proved reserves based on year-end RRA valuations of proved reserves was developed and described below:

(1) "New Field Discoveries and Extensions" represents proved reserves added from drilling exploratory and development wells;

(2) "Increases in Prices of Oil and Gas, Net of Related Lifting Costs" represents the approximate effect of changes from one period to the next in the prices and lifting costs used in the RRA valuation calculation; and

(3) "Interest Factor — Accretion of Discount" is computed by applying 10 percent to the RRA valuation as of the beginning of the year in recognition of the increase resulting from the impact of the passage of time on the discounted cash flow approach to the valuation of the proved reserves.

(4) Revisions to estimates in proved reserves in prior years represents changes in quantities, rates of production and differences between beginning of the year valuations and actual proceeds or costs.

Exploration and development costs

The costs of acquiring unproved properties and drilling exploratory wells are deferred until the properties are evaluated and determined to be either productive or nonproductive, at which time they are charged to expense. Other exploration costs are charged to expense as incurred. Costs of acquiring unproved properties aggregating $2,030,000. $6,059,000 and $14,899,000 have been deferred at March 31, 1979, March 31, 1980 and March 31, 1981 respectively.

Estimated future costs to develop proved reserves are deducted in the RRA valuation of proved reserves. Subsequent revisions to estimated future development costs are included in revisions to reserves proved in prior years. Other development costs are charged to expense when related proved reserves are recognized.

Purchase and sales of proved reserves

Differences, when not significant, between the consideration paid or received and the RRA valuation of proved reserves purchased or sold are included in RRA operating results in the periods that the transactions occurred. The purchase of proved reserves (the Peyto acquisition) resulted in a significant excess of purchase price paid over the RRA valuation of proved reserves purchased. Such excess, which for United States accounting principles is allocated to goodwill, will be charged into the RRA summary of operations over the life of the reserves purchase.

Production and funds flow

Under RRA, because earnings are recognized when proved reserves are discovered and as the RRA valuation of proved reserves changes, no earnings are reported when oil and gas are produced. Consequently, RRA earnings may differ substantially from funds generated or required by current exploration, development, and producing operations.

Income taxes

The provision for income taxes has been calculated using the income tax rates as calculated after making provision for the tax base for oil and gas properties, deductions for depletion and provisions for non-allowable royalties and other expenses.

The RRA Presentation is comprised of two tables for the year ended March 31, 1981 and March 31, 1980. (1) Summary of Operations and (2) Summary of Changes in the Present Value of Estimated Future Net Revenues from Proved Reserves.

Summary of Operations
Prepared on the Basis of Reserve Recognition Accounting
(Unaudited)

	1981	1980
Additions to proved reserves:		
New field discoveries and extensions	$ 1,677,000	$ 401,000
Revisions to reserves proved in prior years:		
Revision to estimates	6,475,000	—
Increases in prices of oil and gas, net of related lifting costs	19,352,000	9,920,000
Interest factor — accretion of discount	5,919,000	1,313,000
Total revisions to proved reserves	31,746,000	11,233,000
Total additions to proved reserves	33,423,000	11,634,000
Related exploration and development costs	15,607,000	5,270,000
Additions to proved reserves in excess of related costs	17,816,000	6,364,000
Amortization of goodwill related to Peyto acquisition	1,948,000	154,000
Allocated corporate general and administrative expense	1,456,000	689,000
Allocated interest	2,025,000	995,000
RRA income before income taxes*	12,387,000	4,526,000
Provision for income taxes	2,623,000	1,584,000
Income from oil and gas producing activities on the basis of RRA	$ 9,764,000	$ 2,942,000
* The comparable amount included in the consolidated financial statements is	$ 1,712,000	$ 1,332,000

Summary of Changes in the Present Value of
Estimated Future Net Revenue from Proved Reserves
Prepared on the Basis of Reserve Recognition Accounting
(Unaudited)

	1981	1980
Balance beginning of year	$59,186,000	$13,133,000
Revisions to reserves proved in prior years	31,746,000	11,233,000
New field discoveries and extensions	1,677,000	401,000
Purchases of proved reserves	—	40,074,000
Projected development costs incurred	(4,657,000)	(23,000)
Production, net of lifting costs	(12,924,000)	(5,632,000)
Balance end of year	$75,028,000	$59,186,000

Ten Year Summary (1)

Thousands of Canadian Dollars except per share data

Year ended March 31
OPERATING
Operating revenues
Construction equipment and supplies
Petroleum industry services and supplies
Oil and gas exploration and production
Net earnings applicable to common shares
Per common share outstanding (2) (5)
Basic earnings
Fully diluted earnings
Cash flow from operations
DIVIDENDS
Per common share (3)
FINANCIAL
Receivables
Inventories
Working capital
Capital expenditures (6)
Fixed assets, net of depreciation and depletion
Total assets
Long term debt
Redeemable preferred shares
Common shareholders' equity
Equity per common share (4) (5)
Number of common shares outstanding (5)

1981	1980	1979	1978	1977	1976	1975	1974	1973	1972
$ 895,408	$ 752,784	$ 426,118	$ 341,222	$ 311,436	$ 274,665	$ 249,273	$ 189,164	$ 140,597	$ 103,542
254,897	189,295	183,140	135,435	105,698	78,353	57,090	43,658	36,768	25,420
18,303	8,588	6,689	6,099	5,361	4,928	4,125	2,509	1,728	1,674
1,168,608	950,667	615,947	482,666	422,495	357,946	310,488	235,330	179,093	130,636
33,044	25,801	23,935	15,943	8,870	8,610	9,317	4,937	3,863	2,258
3.39	3.32	3.14	2.18	1.27	1.30	1.45	0.80	0.64	0.37
3.39	3.32	3.08	2.05	1.14	1.10	1.19	0.66	0.54	0.34
62,801	45,718	41,965	29,059	21,067	20,631	16,729	11,397	9,572	5,456
$ 0.70	$ 0.70	$ 1.00	—	—	—	—	—	—	—
$ 215,864	$ 192,173	$ 132,178	$ 84,954	$ 74,437	$ 64,264	$ 56,423	$ 48,838	$ 39,592	$ 26,310
174,537	159,049	111,523	67,302	62,496	57,031	49,461	42,910	29,698	22,547
102,011	69,861	82,461	35,151	31,296	29,667	31,351	24,204	20,766	11,598
84,539	71,098	21,196	14,563	13,953	43,038	41,105	16,242	12,128	9,008
214,027	163,875	104,068	98,070	99,117	111,857	81,437	48,639	39,721	32,441
655,793	558,145	393,336	290,972	273,284	264,357	213,934	155,445	119,751	90,466
79,898	101,728	86,498	50,793	62,271	84,051	62,390	31,068	24,060	13,428
—	—	—	1,215	1,725	1,952	6,648	6,902	6,653	6,927
223,695	115,459	95,094	77,945	60,986	51,579	40,310	31,472	26,812	22,627
21.39	14.86	12.23	10.53	8.42	7.46	6.47	5.06	4.35	3.75
10,458,818	7,772,440	7,772,440	7,402,808	7,242,608	6,912,658	6,233,034	6,218,544	6,166,286	6,031,386

(1) Results of certain prior years have been restated to reflect adjustments to previously reported operating results.

(2) Based on weighted number of common shares outstanding during the year.

(3) Includes $0.625 special dividend in 1979.

(4) Based on common shares outstanding at year end.

(5) After giving retroactive effect to the 2 for 1 split of the common shares effective August 31, 1979.

(6) Includes acquisition of Peyto Oils Ltd. in 1981 and 1980.

Directors and Officers

Directors

*†S. ABRAMOVITCH,
Executive Vice President,
‡United Westburne Industries Limited,
Montreal, Quebec

†W. M. BOOTH,
Vice President,
Kenai Corp.,
Diversified oil and gas activities
Denver, Colorado

JOHN H. COLEMAN,
President,
J.H.C. Associates Limited
Financial consultants
Toronto, Ontario

*LUCIEN CORNEZ,
Chairman,
‡United Westburne Industries Limited,
Montreal, Quebec

*W. J. CUMMER,
President,
Westburne International Industries Ltd.,
Hamilton, Bermuda

*F. R. MATTHEWS, Q.C.
Partner of MacKimmie Matthews,
Barristers & Solicitors,
Calgary, Alberta

J. DONALD MITCHELL,
President,
C. A. Fowler, Bauld and Mitchell Ltd.,
Architects
Halifax, Nova Scotia

ABRAHAM PALMER,
Retired President,
‡Palmers Plumbing Supply Limited,
Ottawa, Ontario

*P. J. PORTER,
President,
‡Westburne Petroleum Services Ltd.,
Calgary, Alberta

JOSEPH RIMERMAN,
President,
Rayrow Realties Ltd.,
Montreal, Quebec

MAURICE SAILLANT,
Retired Chairman,
‡Saillant Inc.,
Plumbing & Heating supplies,
Quebec, Quebec

*J. A. SCRYMGEOUR,
Chairman of the Board,
Westburne International Industries Ltd.,
Hamilton, Bermuda

†D. N. STOKER,
Senior Vice President and Director,
Nesbitt, Thomson and Company Limited
Investment dealers,
Montreal, Quebec

*D. W. WESTCOTT,
President,
‡United Westburne Industries Limited,
Vancouver, British Columbia

*P. D. WILLIAMS,
President,
‡Westburne Petroleum & Minerals Ltd.,
Calgary, Alberta

**Member of the Executive Committee*
†Member of the Audit Committee
‡Subsidiary company

Officers

J. A. SCRYMGEOUR,
Chairman of the Board

LUCIEN CORNEZ,
Vice Chairman of the Board

S. ABRAMOVITCH,
Executive Vice President

P. J. PORTER,
Senior Vice President—Petroleum Services

L. R. ROBERTS,
Vice President—Finance and Treasurer

W. J. E. GILLETT,
Vice President—Controller

W. J. CUMMER,
President

D. W. WESTCOTT,
Senior Vice President — Equipment and Supplies

P. D. WILLIAMS,
Senior Vice President — Exploration and Production

D. M. GRAVES
Vice President—Administration

J. A. REILLY,
Secretary

Corporate Information

Price Range of Common Shares
Two fiscal years ended March 31, 1981

	Toronto Stock Exchange		American Stock Exchange	
	High	**Low**	**High**	**Low**
	(Canadian Dollars)		**(U.S. Dollars)**	
1979				
2nd Quarter	24¾	19⅞	21⅞	17
3rd Quarter	25⅛	21¼	21⅞	18
4th Quarter	30½	18¾	26⅞	15⅞
1980				
1st Quarter	41½	24	36¾	19¾
2nd Quarter	32½	27¼	29⅞	22⅝
3rd Quarter	36¼	31½	32⅞	26½
4th Quarter	30½	24⅞	30¾	21¼
1981				
1st Quarter	27	23½	23¼	18⅝

Head Office
535 Seventh Avenue S.W., Calgary, Alberta
Telephone (403) 233-6600

Transfer Agent and Registrar
Montreal Trust Company,
Vancouver, Calgary, Regina, Winnipeg,
Toronto and Montreal

The Royal Bank & Trust Company
New York, N.Y.

Legal Counsel
MacKimmie Matthews, Calgary, Alberta
Dunnington, Bartholow & Miller,
New York, U.S.A.

Auditors
Touche Ross & Co.

Stock Exchanges
The Toronto Stock Exchange,
The Montreal Stock Exchange,
The Alberta Stock Exchange,
The American Stock Exchange, Inc.
Ticker Symbol (WBI)

Form 10-K

A copy of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 1981, as filed with the U.S. Securities and Exchange Commission may be obtained without charge by writing to the Secretary of the Company, 300, 535-7th Avenue S.W., Calgary, Alberta, Canada T2P 0Y4.